

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 4th day of October, 2005 (Effective Date), by and between Gulf Federal Bank, a FSB, Mobile, Alabama, OTS Docket No. 08464 (Gulf or Bank), a Federally chartered stock savings bank, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Southeast Regional Director or his designee (Regional Director).

WHEREAS, the OTS is the primary federal regulator of the Bank;

WHEREAS, based upon the Bank's May 16, 2005 Report of Examination (2005 Examination) and January 20, 2005 Information Technology Report of Examination (2005 IT Examination), the OTS is of the opinion that the Bank has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Bank is subject; and/or (ii) are considered to be unsafe and unsound;

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against the Bank;

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Bank will: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices; and

WHEREAS, the Bank, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

Compliance With Laws and Regulations

1. The Bank, its Directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions to comply with the following laws and regulations:
 - a. the Currency and Foreign Transactions Reporting Act, as amended by the USA Patriot Act and other laws (Bank Secrecy Act or BSA), 31 U.S.C. §§ 5311 et seq., and the related BSA regulations issued by the U. S. Department of the Treasury, 31 C.F.R. §§ 103.11 et seq., and the OTS, 12 C.F.R. § 563.177 (collectively with the aforementioned laws and regulations, the BSA Laws and Regulations); and
 - b. the regulations at 12 C.F.R. § 568.5 (Protection of Customer Information).

Anti-Money Laundering/BSA Compliance

2. Within thirty (30) days after the Effective Date of this Agreement, the Board shall review and revise the Bank's program for compliance with the BSA Laws and Regulations (BSA Compliance Program) to strengthen and ensure Gulf's compliance with the BSA Laws and Regulations, including compliance with all documentation and recordkeeping requirements. In amending its BSA Compliance Program, the Board shall, at a minimum, take the following actions:
 - a. The Board shall revise the policies and procedures under the Bank's BSA Compliance Program to require annual independent testing of the Bank's BSA Compliance Program and the Bank's compliance with the BSA Laws and Regulations by a qualified independent outside third party with knowledge of the BSA Laws and Regulations and experience in compliance with the requirements imposed by such laws and regulations. The BSA Policy will require the independent test to be completed within ninety (90) days after each fiscal year end. The Board will ensure that the scope of the test considers and incorporates, as appropriate for the size and complexity of the Bank, the examination procedures established by the Federal Financial Institutions Examination Council Bank Secrecy Act Anti-Money Laundering Examination Manual and the BSA checklist contained in the OTS Compliance Self-Assessment Guide.
 - b. The Board shall engage an independent third party to conduct an independent test of the Bank's BSA Compliance Program and compliance with the BSA Laws and Regulations consistent with the requirements set forth in Paragraph (a) above. The test shall be completed within sixty (60) days after the Effective Date of this Agreement. The Board shall review the results of the test within thirty (30) days following its completion and adopt such corrective action as is necessary and appropriate to address or correct any deficiencies or weaknesses. The Board shall ensure that Management fully implements the corrective actions adopted by the Board. A copy of the independent test and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) business days after the date of the Board meeting.
 - c. The Board shall review and revise the Bank's BSA Compliance Program to include specific, written policies and procedures for compliance with Section 314(a) requests pursuant to 31 C.F.R. § 103.100. The Board's revisions shall, at a minimum, require a log documenting compliance with Section 314(a) requests by noting the date of the request, the control number of the request, the date that the search was initiated, the date that the search was completed, and the number of responsive hits.
 - d. The Board shall review and revise the Bank's BSA Compliance Program to include such policies and procedures as are necessary to strengthen and ensure the

accurate completion and timely filing of Currency Transaction Reports (CTRs) by the Bank. The Board shall require (i) centralized recordkeeping of all CTRs filed by the Bank; (ii) BSA Officer review of the Bank's large cash transactions report to ensure accurate identification of reportable transactions; and (iii) BSA Officer review of all CTRs prior to filing to ensure completeness and accuracy.

- e. The Board shall review and revise the Bank's BSA Compliance Program to include written policies and procedures to ensure the Bank's compliance with the regulations of the U.S. Department of the Treasury Office of Foreign Assets Control (OFAC) at 31 C.F.R. Part 500 (OFAC Policy).
- f. The Board shall require Management to develop for the Board's review and adoption a BSA training program (BSA Training Program) for all appropriate operational and supervisory personnel to ensure awareness of the changes to the Bank's BSA Compliance Program required by this Agreement, responsibility for compliance with the requirements of the BSA Laws and Regulation and the SAR Regulations, and the proper use of current BSA related forms.

Compliance Program

- 3. Within thirty (30) days after the Effective Date of this Agreement, the Board shall engage an experienced, qualified outside compliance consultant (Compliance Consultant) to (i) conduct a review and assessment of the Bank's compliance with applicable consumer protection laws and regulations and (ii) assist the Board in developing a written compliance program that is consistent with the guidance set forth in the OTS Compliance Self-Assessment Guide (December 2002) (Consumer Compliance Program) to strengthen and ensure the Bank's compliance with applicable consumer protection laws and regulations. Within sixty (60) days after the Effective Date of this Agreement, the Compliance Consultant shall complete its review and prepare a report to the Board setting forth its Consumer Compliance Program recommendations. Within thirty (30) days after completion of the Compliance Consultant's report, the Board shall review the Compliance Consultant's recommendations and adopt and implement appropriate corrective action. A copy of the Compliance Consultant's report, the Board meeting minutes setting forth the Board's review, and the Consumer Compliance Program shall be submitted to the Regional Director within thirty (30) days after the Board's adoption of the Consumer Compliance Program.

Information Technology

- 4. Within sixty (60) days after the Effective Date of this Agreement, the Board shall review and revise the Bank's policies and procedures regarding information technology (IT) to strengthen and ensure the Bank's compliance with applicable laws and regulations. In revising its policies and procedures, the Board shall require an annual audit of the Bank's IT function by a qualified third party, to be completed within ninety (90) days after each

fiscal year end. The Board shall review the results of the IT audit, adopt and implement appropriate corrective action to address any deficiencies or weaknesses, and document its review and the corrective actions adopted in the appropriate Board meeting minutes. A copy of the report and the Board meeting minutes documenting the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

Security of Customer Information

5. The Board shall require Management to develop, and thereafter adopt and implement, a written customer information security (CIS) program (CIS Program) that satisfies the requirements of Section 501(b) of the Gramm-Leach-Bliley Act (GLBA).¹ In developing the CIS Program, the Board shall require, at a minimum, the following steps:
 - a. Management shall ensure that the CIS Program includes an inventory of the Bank's existing information collection standards, uses of customer information, policies and practices for sharing customer information, and internal controls for monitoring compliance with applicable law, regulation, and policies and procedures.
 - b. Management shall identify and assess the internal and external risks that threaten or may threaten the security of the Bank's customer information.
 - c. Management shall ensure that staff is adequately trained to implement and comply with the Bank's CIS Program.
 - d. Management shall require the routine testing of key controls, systems, and procedures of the Bank's CIS Program.
 - e. Management shall create and maintain a vendor/provider management function that (i) provides for appropriate due diligence to be conducted in the selection of vendors/providers; (ii) ensures the inclusion of necessary and appropriate GLBA verbiage in all contracts; (iii) requires a review of the Bank's service provider internal controls; and (iv) provides for an ongoing, periodic vendor review process.
 - f. Management shall monitor and adjust the CIS Program on a continual basis in response to changes in technology, sensitivity of customer information, internal or external threats to customer information, and changing business arrangements (e.g., mergers, joint ventures, business alliances, etc.).
 - g. Management shall provide annual reports to the Board or appropriate Board committee on the overall status of the CIS Program, including compliance with

¹ 15 U.S.C. § 6801 et seq.

GLBA guidelines and requirements. The reports shall discuss all material matters including, but not limited to: (i) risk assessments; (ii) risk management and control decisions; (iii) service provider arrangements; (iv) testing results; (v) security breaches or violations, including Management's responses; and (vi) recommendations to the Board regarding necessary and appropriate modifications to the CIS Program.

Business Plan

6. The Board shall revise the Bank's business plan to include a capital enhancement plan that discusses the financial and fixed asset resources currently available to the Bank and those resources that will be necessary given projected and planned increases in existing operations and lines of business, or the conduct of any new operations and lines of business. The Board should detail its plans and strategies for ensuring the availability of adequate resources to meet business plan projections, including the maintenance of capital sufficient to maintain well-capitalized status and adequately support the risk profile of the Bank. The capital enhancement plan shall consider the Bank's current level of classified assets and address any increases in the level of classified assets or deterioration in existing classified assets.

Board Oversight

7. Effective immediately, the Board shall ensure that Management provides complete and accurate reports and other information to the Board and to each Board Committee in a timely manner to allow sufficient discussion and review by the members to fulfill the Board's fiduciary responsibility to Gulf. The Board shall ensure that accurate, complete and detailed minutes of all Board and Board Committee meetings are prepared and maintained in a secure location. Such minutes shall clearly and specifically reflect all matters presented to and discussed by the Board or any Board Committee. Copies of any reports to the Board or Board Committees shall be retained with the appropriate minutes reflecting the review and discussion of such reports. The Board shall appoint one member to be responsible for reviewing and approving the minutes of the Board meetings. Each Board Committee shall appoint one member who shall be responsible for reviewing and approving the minutes of each Board Committee meeting.

Director Responsibility

8. Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual Director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Bank at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

Compliance with Agreement

9. All policies, procedures, corrective actions, plans, programs, reviews and systems required by this Agreement (collectively, Policies and Procedures) shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall submit copies of all Policies and Procedures required by this Agreement to the Regional Director within the timeframes specified or, in the event a timeframe is not specified, within thirty (30) days after adoption by the Board. The Board shall revise such Policies and Procedures as required by the Regional Director within thirty (30) days of receipt of written direction from the Regional Director. The Policies and Procedures, as modified consistent with the written direction of the Regional Director, shall be incorporated into this Agreement and any deviation from such Policies and Procedures shall be a violation of this Agreement.
10. The Board shall require Management to correct all deficiencies identified in the Bank's 2005 Examination and 2005 IT Examination, as directed therein, except where such direction is modified or changed by the terms of this Agreement. Further, the Board and Management of the Bank shall take immediate action to cause the Bank to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Bank to continue to carry out the provisions of this Agreement.
11. The Board shall, on a quarterly basis beginning with the calendar quarter ending December 31, 2005, adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including a report from Management regarding the Bank's compliance with each numbered paragraph of this Agreement), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Bank has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall:
 - a. specify in detail how, if at all, full compliance was found not to exist; and
 - b. identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.
12. The minutes of each meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution:
 - a. the identity of each Director voting in favor of its adoption; and
 - b. the identity of each Director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.
13. Within thirty (30) calendar days after the end of each calendar quarter, beginning with the

calendar quarter ending September 30, 2005, the Board shall provide to the Regional Director a certified true copy of the Compliance Resolution[s] adopted at the Board meeting pursuant to Paragraph 12 of this Agreement. The Board, by virtue of the Bank's submission of a certified true copy of such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except that in the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Board meeting minutes.

14. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement, including making Bank records and documents available for OTS examiner review upon request.

Definitions

15. All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, BSA, HOLA, Federal Deposit Insurance Act (FDIA), Chapter I of Title 31 of the Code of Federal Regulations, or any Memoranda or Bulletins issued by the OTS or the U. S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, BSA, FDIA, or Memoranda or Bulletins of the OTS or FinCEN shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

Successor Statutes, Regulations, Guidance, Amendments

16. Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

Notices

17. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:
 - a. the OTS by the Bank, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, N.E., Atlanta, Georgia, 30309, or telecopied to 404.897.1861 and confirmed by first

class mail, postage prepaid, overnight delivery service or physically delivered. in each case to the above address; or

- b. the Bank by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Bank at 901 Springhill Ave., Mobile, Alabama 36604 or telecopied to 251.433.2361 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered. in each case to the above address.

Duration, Termination or Suspension of Agreement

18. This Agreement shall:

- a. become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and
- b. remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

19. The Regional Director in his sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

Time Limits

20. Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

Effect of Headings

21. The Section headings herein are for convenience only and shall not affect the construction hereof.

Separability Clause

22. In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

23. Nothing in this Agreement shall be construed as:
- a. allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject; or
 - b. restricting the OTS from taking such action(s) as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

Successors in Interest/Benefit

24. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Signature of Directors

25. Each Director signing the Agreement attests, by such act, that she or he voted in favor of a Board resolution authorizing the execution of this Agreement by the Bank.

Integration Clause

26. This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter. However, as noted herein, all Policies and Procedures required by this Agreement shall, upon modification consistent with the direction of the Regional Director, become part of this Agreement and any deviation from these policies shall be deemed a violation of this Agreement.

Enforceability of Agreement

27. The Bank represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Bank. The Bank acknowledges that this Agreement, is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

Counterparts

28. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and each of which shall be deemed an original.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Bank, in accordance with a duly adopted resolution of its Board, hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

By: _____ /S/

John E. Ryan
Regional Director

THE BANK

By: _____ /S/

Name: _____
Title: _____

DIRECTORS SIGNATURES

_____/S/_____
Director

_____/S/_____
Director

_____/S/_____
Director

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Director

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Director

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Director

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OFFICE OF THRIFT SUPERVISION

By:

/S/

John E. Ryan
Regional Director

THE BANK

By:

/S/

Name:
Title:

DIRECTORS SIGNATURES

Director

Director

Director

Director

/S/

Director

Director

Director

Director

Director

Director